

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

CHRISTINA SCHOOL DISTRICT
TUITION TAX
PERFORMANCE AUDIT

July 1, 2005 through April 30, 2006

Fieldwork End Date: October 12, 2006

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EXECUTIVE SUMMARY

BACKGROUND

Christina School District (the District) hired a new Superintendent in January 2006. As part of her contract, she requested a financial review of the District. A team of State and school finance experts, convened by the Director of the Office of Management and Budget and the Secretary of Education, conducted the review. The preliminary results of this review point to an estimated deficit of over \$13M. The review recommended that a detailed audit of the tuition tax program be completed.

Tuition Program

The Department of Education (DOE) has formally approved the following tuition programs for the District for Fiscal Year 2006:

- Bilingual
- Delaware Autistic Program
- Statewide Services for Children with Autism
- Delaware School for the Deaf
- Reach + Option
- Intensive Learning Center (ILC)
- Sarah Pyle Academy

In addition, DOE has verbally confirmed the District's Networks program is an approved tuition program. Schools throughout the District may be operating one, all, or none of the tuition programs.

Students from the District, other Delaware districts, and other states may attend the tuition schools, provided the students qualify for the service. In determining the tuition to be charged, the District is required by Delaware Code Title 14, Chapter 6, *Tuition Charges*, to compute tuition by adding its share of educational related expenses allowed by DOE regulations.

The District levies and collects a tax to fund for District's pupils enrolled in tuition programs administered by the District, other districts, and private institutions. The District estimates the amount of tuition costs based on known enrollment in tuition programs.

DOE has defined direct and indirect tuition program costs on its *Department of Education Tuition Billing Form*. Direct costs are defined as local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis. The only direct costs that may be assigned on a pro-rated basis are instructional personnel who spend a portion of their time providing instructional services to the special program.

AUDIT CONCLUSIONS AND OBSERVATIONS

Disallowed Tuition Costs

The District was authorized by the General Assembly on June 30, 2005, to operate the Sarah Pyle Academy, a non-traditional high school option for District Students who have not been successful in a traditional high school setting and are in need of an intensive learning environment. The District

EXECUTIVE SUMMARY

submitted a \$1,215,000 budget to DOE for renovations to the former Pyle School Building for Sarah Pyle Academy. The findings related to the Sarah Pyle renovation project are as follows:

- Major capital improvement projects (defined as projects with a cost greater than \$500,000) are required to be approved via referendum by the taxpayers. The Sarah Pyle renovation project did not go to referendum and was not approved by the taxpayers.
- The District entered into a contract with the general contractor for the Sarah Pyle renovation project one day prior to authorization by the General Assembly and two days prior to authorization by the Governor.

The District charged \$2,773,807 of non-tuition related costs to the tuition program, which may have resulted in special needs students not receiving the appropriate level of educational services. A summary of costs charged to the tuition program that were not directly related to the program are as follows:

Expenditure Type	Amount
Payroll and related costs	\$ 568,130*
Capital Expenditures	699,880
Coded to tuition programs	686,582
Equipment and Furniture	90,480
Payments for non-tuition eligible students	228,196
Asbestos abatement, roofing, computer wiring, space planning, and carpentry	152,580
Security, intervention services, and Delaware State Police	309,676
Supplies and transportation	23,911
Other	14,372
Total Disallowed Charges	<u>\$2,773,807**</u>

*Includes local funding only. Refer to finding #7 for discussion of State portion of funding.

**The District refunded the tuition program \$801,866 for disallowed costs prior to April 30, 2006.

The Office of Auditor of Accounts (AOA) recommends the following:

- Repay the tuition program \$1,303,841 from local operating appropriations.
- Discuss the repayment option for \$668,100 for Sarah Pyle Academy renovations with AOA, OMB, and DOE.

Tuition Tax Rate Analysis

Tuition tax is one of two types of tax that is not required to pass local referendum prior to changing. The Board can approve an increase to the tuition tax rate and match tax rate without approval from DOE or the taxpayers. AOA proposes that DOE develop a requirement for an independent review of all school district's tuition tax budget and provide a certification to the accuracy of that budget prior to the School Board approving an increase in the tuition tax rate. DOE did complete this analysis for the District prior to the Board approving the 2007 tuition tax rate increase.

EXECUTIVE SUMMARY

AOA developed a FY07 budget for the tuition tax program. Based on the budget developed, AOA substantially agrees with the tuition tax rate of .0376 developed by the District for the Fiscal Year 2007 tuition program. The District's budget includes \$500,000 of repayment from the local funds; however, this amount should be \$1,303,841. This additional revenue is offset by the budgeted repayment of \$807,000, which the District borrowed from the State to pay tuition program bills for District students who attend tuition program in other school districts.

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AUDIT AUTHORITY

Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to perform post audits of all the financial transactions of all State agencies. The law requires that the audits be made in conformity with generally accepted auditing principles and practices. Such principles and practices are established by two standard setting bodies: the American Institute of Certified Public Accountants, which has issued generally accepted auditing standards; and the U.S. General Accountability Office, which has issued generally accepted government auditing standards.

BACKGROUND

Christina School District (the District) hired a new Superintendent in January 2006. As part of her contract, she requested a financial review of the District. A team of State and school finance experts, convened by the Director of the Office of Management and Budget and the Secretary of Education, conducted the review.

The preliminary results of this review point to an estimated deficit of over \$13M. The review recommended that a detailed audit of the tuition tax program be completed.

Christina School District

The District is Delaware's largest public school system, serving a diverse group of students in grades K-12. The District is comprised of three high schools (Christiana, Glasgow, and Newark); three middle schools (Gauger-Cobbs, George V. Kirk, and Shue-Medill); five intermediate schools (Bancroft, Bayard, Casimir Pulaski, Elbert-Palmer, and Frederick Douglass Stubbs); thirteen elementary schools (Albert H. Jones, Brookside, Etta J. Wilson, Henry M. Brader, Jennie E. Smith, John R. Downes, Joseph M. McVey, May B. Leasure, R. Elisabeth Maclary, Robert S. Gallaher, Thurgood Marshall, West Park Place, and William B. Keene); and four special schools (Christina ILC [Alternative/OPTION], Douglass Behavioral School [REACH/CBIP], Delaware Autism Program [Brennen School], and Margaret S. Sterck Delaware School for the Deaf). The schools are located throughout northern New Castle County.

Tuition Program

The Department of Education (DOE) has formally approved the following tuition programs for the District for Fiscal Year 2006:

- Bilingual
- Delaware Autistic Program
- Statewide Services for Children with Autism
- Delaware School for the Deaf
- REACH
- Option/Intensive Learning Center (ILC)
- Sarah Pyle Academy

In addition, DOE has verbally confirmed the District's Networks program is an approved tuition program. Schools throughout the District may be operating one, all, or none of the tuition programs.

Students from the District, other Delaware districts, and other states may attend the tuition schools, provided the students qualify for the service. In determining the tuition to be charged, the District is required by Delaware Code Title 14, Chapter 6, *Tuition Charges*, to compute tuition by adding its share of educational related expenses allowed by DOE regulations. The sum of the allowable expenses is divided by the total number of pupils in the authorized program and grades as of September 30 of the current school year to calculate a tuition rate per pupil. For each pupil attending a public school of another district as of September 30, the receiving district shall bill the sending district, and the sending district shall pay the tuition charges per pupil on or before January 1 of the fiscal year in which the bill is submitted to the sending district for payment. In the case of pupils attending the public schools of the receiving district for less than a full term, the tuition charge shall be prorated by reference to the period of

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time during which such pupils actually attended the receiving district's schools, provided that attendance for part of any month shall be counted as a full month of attendance. The District is required to bill each sending district its share of the tuition rate per pupil. DOE has developed a standard billing form that covers the current and prior periods. The current period is for an estimated tuition rate; the prior period is for an actual tuition rate (i.e. the bills prepared at the end of calendar year 2005 were for Estimated Tuition Rate 2005-2006 and Actual Tuition Rate 2004-2005). The Secretary of DOE is required to certify all billings are true and correct.

The District levies and collects a tax to provide funding for District's pupils enrolled in tuition programs administered by the District, other Districts, and private institutions. The District estimates the amount of tuition costs based on known enrollment in tuition programs. The District estimates tuition program expenditures based on a tuition tax levy budget prepared on an annual basis. The budget takes into consideration prior year expenditures, expected increases/decreases, private placement costs, and funds available from the prior year.

DOE has defined direct and indirect tuition program costs on its *Department of Education Tuition Billing Form*. Direct costs are defined as local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis. The only direct costs that may be assigned on a pro-rated basis are instructional personnel who spend a portion of their time providing instructional services to the special program.

OBJECTIVES, SCOPE, & METHODOLOGY

OBJECTIVES

1. Determine the accuracy and propriety of the expenditures in appropriation Christina School District 8200 series (95-33), and all appropriations for Christina Autistic Program (95-60), REACH (95-56), Margaret Sterck School (95-51), and Christina ILC (95-59).
2. Based on the results of expenditure review, determine the estimated FY07 tuition tax budget and tuition tax rate.

SCOPE

The performance audit covers the period July 1, 2005 through April 30, 2006, and includes the review of all personnel and journal entries charged to tuition programs, a review of all invoices greater than \$5,000 for the 8200 series appropriations, and a review of all invoices greater than \$1,000 charged to the special schools DDS codes. In addition, the audit includes a tuition program budget projection for the FY07 tax rate and billings.

Audit fieldwork was completed on October 12, 2006.

METHODOLOGY

The audit was performed in accordance with *Government Auditing Standards* (GAS) applicable to performance audits issued by the Comptroller General of the United States.

Audit procedures consisted of the following:

- Reviewed laws and regulations pertaining to tuition tax programs and the processing of transactions.
- Interviewed appropriate officials at the District and DOE.
- Obtained PHRST and DFMS payroll and transaction data.
- Inspected supporting documentation such as personnel files and vendor invoices.
- Analytically reviewed other employment costs.
- Determined if payroll expenditures, vendor expenditures, and journal entries were for the purposes of the tuition programs.
- Estimated 2007 tuition program expenditures, billings, and tuition tax rate and compared results to the District's tuition tax budget, expected billings, and 2007 tuition tax rate.

The criteria used in this performance audit consisted of the following:

- 14 Delaware Code, Chapter 6, Tuition Charges
- Fiscal Year 2006 Budget Epilogue language
- State of Delaware *Budget and Accounting Manual*

CONCLUSIONS

Determined the accuracy and propriety of the expenditures in appropriation Christina School District 8200 and 8281 (95-33), and all appropriations for Christina Autistic School (95-60), Douglass Special School (95-56), Margaret Sterck School (95-51), and Christina ILC (95-59).

The District was authorized by the General Assembly on June 30, 2005, to operate the Sarah Pyle Academy, a non-traditional high school option for District Students who have not been successful in a traditional high school setting and are in need of an intensive learning environment. The District submitted a \$1,215,000 budget to DOE for renovations to the former Pyle School Building for Sarah Pyle Academy. The findings related to the Sarah Pyle renovation project are as follows:

- Major capital improvement projects (defined as projects with a cost greater than \$500,000) are required to be approved via referendum by the taxpayers. The Sarah Pyle renovation project did not go to referendum and was not approved by the taxpayers.
- The District entered into a contract with the general contractor for the Sarah Pyle renovation project one day prior to authorization by the General Assembly and two days prior to authorization by the Governor.

The District charged \$2,773,807 of non-tuition related costs to the tuition program, which may have resulted in special needs students not receiving the appropriate level of educational services. A summary of costs charged to the tuition program that were not directly related to the program are as follows:

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Total Disallowed Charges	<u>\$2,773,807**</u>

*Includes local funding only. Refer to finding #7 for discussion of state portion of funding

**The District refunded the tuition program \$801,866 for disallowed costs prior to April 30, 2006.

AOA recommends the following:

- Repay the tuition program \$1,303,841 from local operating appropriations.
- Discuss the repayment option for \$668,100 for Sarah Pyle Academy renovations with AOA, OMB and DOE.

CONCLUSIONS

Based on the results of expenditure review, determined the estimated FY07 tuition tax budget and tuition tax rate.

AOA developed a FY07 budget for the tuition tax program. Based on the budget developed, AOA substantially agrees with the tuition tax rate of .0376 developed by the District for Fiscal Year 2007 tuition taxes. The District's budget includes \$500,000 of repayment from the local funds; however, this amount should be \$1,303,841. This additional revenue is offset by the budgeted repayment of \$807,000, which the District borrowed from the State to pay tuition program bills for District students who attend tuition program in other school districts.

AUDITEE RESPONSES

The District responses are included in the findings and recommendations section of the report.

FINDINGS AND RECOMMENDATIONS

Finding #1 – Major Capital Project Costs Paid out of Operating Expenditures

The General Assembly authorized the District to operate the Sarah Pyle Academy as a special program and charge tuition for its support by passing the 143rd General Assembly House Bill No. 300 (Section 426) on June 30, 2005. The Governor signed the bill on July 1, 2005. The Sarah Pyle Academy was authorized to operate as a one-year, academic recovery, drop out prevention pilot at no additional cost to the State. The Sarah Pyle Academy is a non-traditional high school option for District students who have not been successful in a traditional high school setting and are in need of an intensive learning environment to earn the necessary credits to graduate.

The creation of the Sarah Pyle Academy began with the renovations to the former Pyle School building at 501 North Lombard Street, Wilmington, DE. The budgeted renovations included the following:

- Upgrades to the kitchen and auditorium
- Reconfiguration of the administration area
- Painting
- Carpeting
- Signage
- Furniture
- Technology infrastructure, hardware, and software
- Safety enhancements

The original proposed renovation budget for the Sarah Pyle Academy (dated February 22, 2005 http://www.christina.k12.de.us/SarahPyleAcademy/pdf/20050222_ProposalFinalReport_Rev0308.pdf) was for \$1,410,000 comprised of the following:

Description	Amount
Planning/Feasibility	\$ 25,000
Technology/Phones	300,000
Furniture	180,000
Kitchen Equipment	80,000
Computer	125,000
Soft Costs (Project Management)	100,000
Contingency	100,000
Construction	500,000
Total	<u>\$1,410,000</u>

The final Sarah Pyle Academy Proposal submitted to DOE by the District on June 3, 2005 details the renovation budget as follows:

FINDINGS AND RECOMMENDATIONS

Description	Amount	Proposed Funding Source
General Renovation/Alternations/Modifications	\$ 350,000	Tuition Tax
Elevator	225,000	\$133,000 Minor Capital Improvement Tax; \$92,000 Tuition Tax
Kitchen Equipment	100,000	Tuition Tax
Furniture	140,000	Local Funds
Technology/phones/safety and security upgrades	250,000	SB69 (Textbook/Technology)
Soft costs/project management/contingency	150,000	Local Funds
Total	<u>\$1,215,000</u>	

On June 20, 2006, the District entered into a contract with Amakor, Inc. to complete the interior renovations at Sarah Pyle Academy. The original contract entered into with Amakor, Inc. was for \$573,000. The description of work and scheduled value as delineated in the AIA Document G702, *Application and Certification form Payment*, is as follows:

Description	Amount
General Conditions	\$ 51,500
Permit and Bonds	19,325
Demolition	24,350
Concrete and Masonry	14,100
Carpentry and Miscellaneous Metal	16,500
Roof Patching	15,260
Rolling Counter Grilles	15,248
Flooring	19,100
Drywall	27,700
Ceilings	15,733
Painting	119,000
Food Service Equipment	92,184
Plumbing and Electrical	143,000
Total	<u>\$573,000</u>

The Sarah Pyle Academy renovation project was a major capital project because the project was greater than \$500,000. The Delaware Administrative Manual, Title 14, Section 401, *Major Capital Improvement Programs* states, "Major capital improvement programs are projects having a cost of \$500,000 or more." The final budgeted cost for the Sarah Pyle Academy renovations were \$1,215,000, and the District entered into a contract for \$573,000 for the completion of interior renovations.

During the period July 1, 2005 through April 30, 2006, the District charged \$1,019,260 of Sarah Pyle Academy renovations to the tuition tax appropriation (8200). The composition of the total amount charged during this period is as follows:

FINDINGS AND RECOMMENDATIONS

Description	Amount
Interior Renovations (Amakor, Inc.)	\$ 607,629
Architect	18,635
Interior Hardware	22,750
Asbestos Abatement	19,086
Furniture and White Boards	152,090
Carpet	42,499
Software	70,930
Network/Phone	85,641
Total	<u>\$1,019,260</u>

The District funded Sarah Pyle renovations, a capital project, with local tuition funding. Local tuition tax funds are intended to fund the ongoing operations of the tuition eligible programs and not for major capital renovation projects. Delaware law (Title 14, Chapters 19, 20, 21, and Title 29 Chapter 75) requires major capital projects to be approved by the District taxpayers in a local referendum, thereby allowing the District to utilize debt to fund the project and spread the cost to the taxpayer over a 20-year period.

The State matches approximately 60 percent of capital projects through the issuance of a State portion of the debt. Because the General Assembly specifically stated that the Sarah Pyle Academy was authorized to operate at no additional expense to the State, the District was unable to seek State financing for the renovations.

AOA disallowed \$668,100 (interior renovations, architect, interior hardware, and asbestos abatement costs) of capital project costs charged to the District's tuition program. If the District did not complete the interior renovations to the Pyle School building, the Sarah Pyle Academy would still have incurred the \$353,160 of furniture, carpet, software, equipment, and network/phone costs to start the program.

The District miscoded capital outlay expenditures in the State's accounting system. The District charged Sarah Pyle Academy capital renovations in the amount of \$1,019,260 to category 50 series, contractual services, in the State's accounting system (DFMS). The State *Budget and Accounting Manual*, Appendix C, requires Capital Outlay Equipment to be charged to category 70 series, and Capital Outlay – Property to be charged to category 80 series.

Summary of Finding

The District signed and entered into a contract for \$573,000 for the interior renovations of Sarah Pyle Academy one day before the General Assembly approved the operation of the Sarah Pyle Academy and two days before the Governor signed the bill. The \$1,215,00 Sarah Pyle Academy capital project was not approved via referendum by the District's taxpayers as required by Delaware law resulting in \$668,100 tuition program funds being used to fund a capital project. In addition, the District coded \$1,019,260 of capital project costs to contracted services object code instead of the capital outlay object code in the State's accounting system.

FINDINGS AND RECOMMENDATIONS

Recommendation

The District discuss with DOE, AOA, the Office of Controller General and the Office of Management and Budget (OMB) the appropriate action that should be taken to repay the tuition program for \$668,100 of capital expenditures charged to the program.

The District develop procedures to ensure accurate coding in the State's accounting system.

Auditee Response

The District discussed with DOE and AOA what actions can be taken during AOA's fieldwork phase of the audit. If the District were to repay this amount to the tuition funds from local funds, then the District would be in violation of the same policy but within local funds. Based on the preliminary budget approved by the Board of Education on July 11, 2007, no funds were budgeted for repayment of these funds.

Auditor Comment

OMB and the Office of Controller General were not included in the discussions regarding the repayment of \$668,100 of capital outlay expenditures charged to the tuition program. With the assistance of DOE and OMB, the District needs to develop a plan that will refund the tuition program for the \$668,100 of capital outlay expenditures.

Finding #2 – Disallowed Invoice Expenditures

AOA reviewed all invoices greater than \$1,000 charged to the REACH, ILC, the School for the Deaf, and Autism tuition programs, and all invoices greater than \$5,000 charged to the District's tuition tax local appropriation for the period from July 1, 2005 through April 30, 2006. AOA reviewed 1,273 invoices valued at \$6,831,036. A summary of the invoices charged to a tuition eligible program but were not readily identifiable with a tuition eligible program is as follows:

Description of Goods or Services	Amount of Payment
Asbestos abatement not related to tuition classrooms	\$ 23,294
Assistance with non-tuition eligible students with academic and behavioral problems	12,000
Carpentry work not readily identifiable to a tuition classroom	2,550
Inadequate and missing documentation	5,649
Custodial equipment, computer and related equipment, and alert and monitoring systems delivered to Eden Square Support Center with no further documentation that items were delivered to or installed in a tuition classroom	86,474
Furniture purchased for Christina High School without a specific tuition classroom documented	4,006
Instruction for a non-tuition student	4,600
Roofing work with no documentation that work was done at a tuition school	26,147
Supplies delivered to schools that do not have a related tuition classroom	17,795
Transportation with no support that it was for tuition students	6,116
Computer wiring and related work not related to the tuition program	84,935
Administration building space planning	15,654
Capital project renovations for Networks program	31,780
Total Disallowed Tuition Program Invoice Charges	<u>\$321,000</u>

FINDINGS AND RECOMMENDATIONS

The following summarizes disallowed invoice charges by tuition program:

Program	Amount
School for the Deaf	\$ 19,123
REACH	25,079
ILC	25,477
Autism	16,088
Christina School District Tuition Tax Appropriation	235,233
Total Disallowed Tuition Program Invoices	<u>\$321,000</u>

Delaware Code Title 14, Chapter 6, *Tuition Charges*, Section 602(b), states, “in determining the tuition to be charged, the receiving district shall compute the tuition by adding such receiving district’s share of educational expenses as allowed by Department of Education regulations.” DOE regulations detailed on the *Instructions for Department of Education Billing Form* state, “direct costs are limited to those local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis.”

The District did not provide proper coding on the purchase voucher documents or they did not provide proper support with the purchase voucher document to support the expenditure being appropriately charged to a tuition program. This resulted in \$321,000 of tuition tax funding being used for non-tuition tax programs. The District processed correcting journal entries in June of 2006 to move \$115,284 of non-tuition related expenditures to local operating appropriations.

Recommendation

The District review all charges to the tuition program to ensure that only charges readily identifiable with a tuition program are properly coded to that program. In addition, the District local operating appropriation repay the tuition program \$205,716.

Auditee Response

Based on the preliminary budget approved by the Board of Education on July 11, 2007, no funds were budgeted for repayment of these items. This will be reevaluated as we approach the end of the fiscal year to determine if funds are available. As of April 30, 2006, the tuition programs owe the District local funds more than \$145,000 from expenses paid from District local funds on behalf of the tuition programs.

Auditor Comment

The District needs to develop a plan to repay tuition program for disallowed costs.

Finding #3 – Disallowed Journal Entries

All financial transactions executed by the State of Delaware are evidenced by Delaware Financial Management System (DFMS) forms completed at the agency/department/division initiating the transaction. Normal cash receipt and cash disbursement transactions are entered using cash receipt (CR) and payment voucher (PV) documents. However, there are non-cash receipt and disbursement transactions, such as transfers or corrections that are entered using other documents, such as cash

FINDINGS AND RECOMMENDATIONS

adjustment (CA), expenditure correction (EX), intergovernmental voucher (IV), journal voucher (JV), and requests for transfer (TA) documents.

Appendix K, of the State of Delaware *Budget and Accounting Manual* defines these non-cash transactions as follows:

- CA – used to move actual cash from one appropriation to another; may only be used for appropriation types 20 (Nonappropriated Special Fund), 30 (Appropriated Special Fund), and 40 (Federal Grants).
- EX – used to adjust expenditure information, such as object code or appropriation (not the amount) after it has been entered into DFMS. The original information may have been generated by a payment voucher (PV), manual warrant (MW), or the Buyer portion of an intergovernmental voucher (IV). If the amount is to be adjusted, this must be done as a direct claim through a PV, if there was an underpayment, or as a CR if there was an overpayment.
- IV – used when the buyer and seller are State agencies. The IV permits transactions between agencies without the issuance of a check, via a PV, and the subsequent execution of a CR and bank deposit.
- JV – used by the Division of Accounting to record and document accounting events not covered by any other DFMS transaction. The offsetting entries are not generated by DFMS and therefore must be included on the JV.
- TA – submitted by an agency to the Office of Management and Budget and the Controller General, it requests a transfer of an appropriation or a Special Fund balance from one agency to another agency or from one organizational unit to another organizational unit within an agency and from one line to another line.

AOA reviewed EXs, IVs, and CAs processed by the District in the tuition program schools and appropriations as follows:

- 106 EX transactions (all EX transactions processed during the audit period).
- 20 IV transactions (all IV transactions greater than \$1,000 during the audit period) valued at \$681,225.
- 16 CA documents (all CA documents reviewed by Financial Review Team) valued at \$939,125.

JVs are approved by the Division of Accounting, and TAs are processed and approved by DOE and/or OMB, therefore test work was not completed.

A summary of charges to the tuition program that did not directly relate to the program resulting from AOA's review of EX, IV, and CA documents is as follows:

FINDINGS AND RECOMMENDATIONS

Description of Purpose of the Journal Entry	Amount of Payment
Hand held portable radios	\$ 2,653
School Resource Officers (Delaware State Police)	218,265
Coded to non-tuition programs	686,582
Homebound instruction for non-tuition students	211,596
Security at high schools	74,403
Reclassification of payroll for achievement advocacy not related to the tuition programs	6,070
Intervention services (contractors located at school to intervene in student situations if needed)	17,008
Total Disallowed Tuition Program Journal Entries	<u>\$1,216,577</u>

All disallowed tuition program journal entries were identified in the District's tuition tax appropriation.

Delaware Code Title 14, Chapter 6, *Tuition Charges*, Section 602(b), states, "in determining the tuition to be charged, the receiving district shall compute the tuition by adding such receiving district's share of educational expenses as allowed by Department of Education regulations." DOE regulations detailed on the *Instructions for Department of Education Billing Form* state, "direct costs are limited to those local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis."

The District did not properly code journal entries to non-tuition programs. This resulted in \$1,216,577 of tuition tax funding being used for non-tuition tax programs. The District processed a cash adjustment in June of 2006 to move \$686,582 to the appropriate tuition program.

Recommendation

The District review all charges to the tuition program to ensure that only charges readily identifiable with a tuition program are properly coded to that program. In addition, the District local operating appropriation repay the tuition program \$529,995.

Auditee Response

Based on the preliminary budget approved by the Board of Education on July 11, 2007, no funds were budgeted for repayment of these items. This will be reevaluated as we approach the end of the fiscal year to determine if funds are available.

Auditor Comment

The District needs to develop a plan to repay tuition program for disallowed costs.

Finding #4 – Allocation Methodology and Documentation

The District charged \$36,699 of energy, sewer, and water costs related to Shue-Medill Middle School and Maclary Elementary School to the ILC tuition program. Until this time, energy, sewer, and water costs for these schools were appropriately charged to the ILC program. The District now provides ILC programs in most schools throughout the District. The change in school structure has not been reflected in the District's tuition program costs for energy, water, and sewer. This may result in an overcharge or undercharge of water, sewer, and energy costs for the tuition program.

FINDINGS AND RECOMMENDATIONS

The District purchased commercial, garage keepers, workers compensation, and commercial umbrella insurance on an annual basis. The total cost of this insurance is \$248,021. The District allocates the costs between the District and its four tuition programs as follows:

Program	Amount
Traditional programs (DDS code 95-3300)	\$124,011.00
School for the Deaf (DDS code 95-5100)	31,002.50
REACH program (DDS code 95-5600)	31,002.50
ILC program (DDS code 95-5900)	31,002.50
Autism program (DDS code 95-6000)	31,002.50
Total	<u>\$248,021.00</u>

The District did not provide AOA with a cost allocation methodology for the \$124,011 charged to the tuition programs.

Indirect costs are those which are not easily identifiable with a specific program, but which are, necessary to the operation of the program. These costs are shared among programs. The full cost of a program rightfully includes a share of the overall costs of the organization. Knowing the full cost of a program sets a basis for financial analysis of the program, for setting fees and tax rates, and requesting reimbursement from funding sources.

DOE regulations detailed on the *Instructions for Department of Education Billing Form* state, “direct costs are limited to those local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis. The only direct costs that may be assigned on a pro-rated basis are instructional personnel who spend a portion of their time providing instructional services to the special program.” DOE does allow an indirect cost rate to be charged to other District’s sending students to the District’s tuition programs.

Recommendation

The District should discuss the need to allocate indirect costs to the tuition program with DOE.

If DOE agrees that costs not readily identifiable to the tuition program should be charged to the tuition program and these costs are not covered by the District’s indirect cost allocation rate, DOE update the *Instructions for Department of Education Billing Form* to reflect such changes. The District then develop an allocation methodology that best reflects the use of the services that are to be allocated. The two most common indirect cost allocation methods are 1) case by case basis and 2) development of an indirect cost rate.

If DOE does not agree that these indirect costs be directly allocated to the tuition program, the District should not charge the Tuition program for these types of costs.

FINDINGS AND RECOMMENDATIONS

Auditee Response

The District has discussed the indirect cost allocation methodology with DOE. The District will develop and implement the methodology for applying the indirect costs to the tuition based programs. For the fiscal year ended June 30, 2006, no indirect costs were charged to the tuition based programs.

Finding #5 – Non-Tuition Schools Purchasing Supplies for Tuition Classrooms

Many of the District's elementary, intermediate, middle, and high schools have tuition classrooms located within the school. For example, Christiana High School has Autism, ILC, and REACH within the school. Often the schools' main office purchase supplies, equipment, and educational materials for all classrooms. During the period July 1, 2005 through April 30, 2006, AOA noted \$44,472 of purchases that were made by an elementary, intermediate, middle or high school that had the related tuition program classroom. Although the invoice was charged to tuition program, the invoice did not specific state that the purchase was for the tuition program.

DOE regulations detailed on the *Instructions for Department of Education Billing Form* state, "direct costs are limited to those local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis."

Recommendation

Individuals responsible for purchasing goods and services at elementary, intermediate, middle and high schools with tuition program classrooms, document on the purchase order, invoice and/or PV the tuition classroom for which the goods or services were purchased. The approval of these documents will denote authorization that these items were for a tuition program.

Auditee Response

The District will implement this recommendation.

Finding #6 – Time and Effort Reporting

The District has not implemented a time and effort reporting system for employees who spend a portion of their time on the tuition program. The District allocates employees' payroll based on expectations of programs in which employees will work during the budget process. Expectations are not updated during the year for actual time worked in multiple programs. During the period July 1, 2005 through April 30, 2006, 216 employees were partially paid from the tuition program. This amounted to \$8,267,483.

FINDINGS AND RECOMMENDATIONS

DOE regulations detailed on the *Instructions for Department of Education Billing Form* state, “direct costs are limited to those local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis. The only direct costs that may be assigned on a pro-rated basis are instructional personnel who spend a portion of their time providing instructional services to the special program. For those employees that charge only a portion of their time to this special program, the district is responsible for maintaining appropriate time and effort documentation.”

Not maintaining appropriate time and effort reporting documentation may result in over or undercharging the tuition program for employee costs associated with the program.

Recommendation

Implement a time and effort reporting system to support the instructional personnel pro-rated costs assigned to the tuition program. The system should capture actual time worked on the tuition program by including daily time tracking by program and approval by the employee’s supervisor and/or program director.

Auditee Response

The District will develop and implement a time and effort reporting system for tuition programs. The frequency and format of it will need to be determined. To implement an efficient daily tracking system, as recommended, will require an electronic system. This is cost prohibitive. To have a manual daily tracking system will require large amounts of administrative time from current staff at all levels and require additional administrative staff. Given the current school staffing model, this is not an option. The District will need to examine other options and implement a system that is usable, does not require large quantities of administrative time, and is low cost.

Finding #7 – Disallowed Payroll Costs

AOA reviewed all employees with a salary greater than \$1,500 charged to the DOE approved tuition programs for the period from July 1, 2005 through April 30, 2006. AOA reviewed 893 employees valued at \$29,842,967. A summary of the employee costs charged to a tuition eligible program but not readily identifiable with a tuition eligible program is as follows:

Program	State Funding	Local Funding
REACH		\$ 32,686
ILC	\$402,869	\$236,983
Administration	89,854	124,866
Total Disallowed Tuition Program Payroll	\$492,723	\$394,535
Average OEC costs for tuition program (44%)	216,798	\$173,595
Total Disallowed Tuition Program and OEC costs	<u>\$709,521</u>	<u>\$568,130</u>

FINDINGS AND RECOMMENDATIONS

Delaware Code Title 14, Chapter 6, *Tuition Charges*, Section 602(b), states, “in determining the tuition to be charged, the receiving district shall compute the tuition by adding such receiving district’s share of educational expenses as allowed by Department of Education regulations.” DOE regulations detailed on the *Instructions for Department of Education Billing Form* state, “direct costs are limited to those local costs that directly support the provision of educational services, and are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis.”

The District paid 33 of non-tuition program employees with tuition program funds.

Recommendation

The District properly review all employees charged to the tuition program to ensure that only employees working on an approved tuition program are properly charged to that program. The District local operating appropriation repay the tuition program \$568,130.

The District and DOE determine if special needs students were properly calculated and funded by the State.

Auditee Response

After the completion of fieldwork by the AOA, the District was able to locate additional documentation to support \$152,508, including OECs, of the charges posted to the tuition accounts. It was also determined that the amount disallowed for one employee was calculated using her entire local salary instead of the portion charged to tuition funds. This is an overstatement in the amount of \$23,322. One administrative employee was disallowed even though the position was earned within the tuition program. The amount charged to tuition for this employee, including OECs, was \$15,032. The District also made a decision for the school year 05-06 to add three additional educational diagnosticians to work with tuition based students. Based on the documentation available the District was unable to prove that the employees worked exclusively with tuition based students. The total amount charged to tuition funds, including OECs was \$78,837. The remaining \$298,431 of disallowed expenses were not included in the current operating budget approved by the Board of Education. This will need to be revisited closer to the fiscal year end to determine if there are sufficient local funds to repay the tuition funds.

Auditor Comment

AOA requested final supporting documentation for payroll and related costs as of October 6, 2006, and accepted supporting documentation through October 12, 2006. The auditee response has not been verified by AOA. The District needs to develop a plan to repay tuition program for disallowed costs.

FOLLOW-UP OF PRIOR YEAR FINDINGS

Prior Year Findings	Status
<p>The following Tuition Tax findings from the Christina School District audit report dated August 19, 2004.</p> <p><u>Finding</u> Christina School District Tuition Billing Forms were not submitted by November 1st. DOE does not enforce the due date.</p> <p><u>Recommendation</u> Christina School District complete and submit the bills to DOE by November 1st to facilitate meeting the January 1st deadline.</p> <p>The Department of Education should enforce the November 1st due date; otherwise, DOE should revise the billing instructions.</p> <p><u>Auditee Response</u> Prior to FY05, DOE traditionally issued the billing forms after November 1st. In FY05, the District was the first to contact DOE in October 2004 to determine when the forms would be issued. As a result of our inquiry, the billing tuition forms by FY04/05 were issued by DOE on October 28, 2004 giving us insufficient time to meet the November 1st deadline.</p>	<p>Not Implemented</p> <p>System related difficulties in obtaining address data for students enrolled in special school prevented the District from meeting this requirement.</p>

FOLLOW-UP OF PRIOR YEAR FINDINGS

Prior Year Findings	Status
<p><u>Finding</u></p> <p>Within the scope of this engagement, AOA cannot conclude if the tuition tax levy was reasonable compared to tuition bills paid due to the following:</p> <ul style="list-style-type: none"> • Payments from Christina School District to Sterck, Reach, Option/Maclary ILC, and Autistic for "Estimated 02-03/Actual 01-02 Bills" did not agree to the billed amounts. • Payments from Christina School District to Sterck, Reach, Option/Maclary ILC, and Autistic for "Estimated 03-04/Actual 02-03 Bills" did not agree to the billed amounts. • Amounts reported on Line B (Amount Previously Paid) of the "Estimated 03-04/Actual 02-03 Bills" from Sterck, Reach, Option/Maclary ILC, and Autistic to Christina School District did not agree to detail records reviewed by AOA. • Amounts reported on Line B (Amount Previously Paid) of the "Estimated 04-05/Actual 03-04 Bills" from Sterck, Reach, Option/Maclary ILC, and Autistic to Christina School District did not agree to detail records reviewed by AOA. • The District's methodology for reporting Line B (Amount Previously Paid) for the "Estimated 03-04/Actual 02-03 Bills" and "Estimated 04-05/Actual 03-04" bills from Sterck, Reach, Option/Maclary ILC, and Autistic to Christina School District was not consistent. • Numerous transfers between Christina School District and the special schools, the totals of which do not agree to billings. <p><u>Recommendation</u></p> <p>Due to the aforementioned issues, an independent review of Christina School District's processes for managing tuition tax activity should be performed. The review should include Christina School District's 8200 and 8281 appropriations, as well as activity related to Sterck, Reach, Option/Maclary ILC, and Autistic. The review should be conducted by an independent accounting firm and the results of the review should be communicated to the Christina School District School Board, the Department of Education, and the Office of Auditor of Accounts. Recommendations of this independent review should be implemented by Christina School District.</p>	<p>At the request of the new Superintendent, the District had a financial review completed by DOE in April 2006. That review recommended an in-depth audit of tuition tax. This audit was completed by AOA and the results are contained in this report. In addition, the financial review team remains on-site at the District assisting them with operations, including the development of tuition tax levy and the processing of tuition tax transactions.</p>

FOLLOW-UP OF PRIOR YEAR FINDINGS

Prior Year Findings	Status
<p><u>Auditee Response</u></p> <ol style="list-style-type: none"> 1. To clarify the findings above, all the comments regarding the Amounts Previously Paid, Line B of the tuition billing form, relate only to billings between Christina School District and the special schools/programs and [sic] do not relate to the billing of any other district. 2. In regards to the recommendation to engage an outside accounting firm, the ability of the auditors to agree transfers between Christina School District and the special schools/programs to be billed amounts was due solely to the transfer forms not being clearly marked as to the purpose of the transfer. Rather than submit the District to a costly audit by an independent accounting firm, henceforth transfers for billed amounts will be clearly marked on the transfer documents and supporting documentation will be attached. 3. The change in methodology during the FY04/05 billing for calculating Line B (Amount Previously Paid) for the Christina School District only, was due to a District employee determining that the tuition transfers did not agree with the amount requested on the billing form for FY03/04. The employee made the adjustment, with [sic] consent of the Chief Financial Officer, to Line B to correct the differences, thus causing a change in methodology from the prior year. It was felt that this was the best way to handle the difference in payments. Documentation was provided to the field auditors to support the adjustments. 	<p>.</p>

FOLLOW-UP OF PRIOR YEAR FINDINGS

Prior Year Findings	Status
<p><u>Auditor's Comment</u></p> <p>The Office of Auditor of Accounts stands behind its recommendation that the District obtain an independent review of its tuition tax activity. The reasons for this recommendation are clearly stated in the finding. To elaborate further on the issues and to clarify the auditee's response:</p> <ol style="list-style-type: none"> 1. The ability of the auditors to agree transfers between the District and the special schools was not due solely to the transfer forms not being clearly marked as to the purpose of the transfer; however, this was a contributing factor. Other issues were: (a) total transfers from the District to the special schools did not agree to billing from the special schools to the District, (b) volume of transfers: there were a total of four billings from the special schools to the District for "Estimated 03-04/Actual 02-03 Billings." There were over 30 transfers between the Districts related to these four bills. Due to the volume of transfers, there appears to be cash flow issues related to the special schools, (c) total transfers per the auditors' review of DFMS activity did not agree to total payments reported by the District on subsequent billings. 2. The finding states, "The District's methodology for reporting Line B (Amount Previously Paid) for the "Estimated 03-04/Actual 02-03 Bills" and "Estimated 04-05/Actual 03-04" bills from Sterk, Reach, ILC, and Autism to the District was not consistent." The District responded that the change in methodology "was due to a District employee determining that tuition transfers did not agree with amount requested on the billing form FY03/04. The employee made the adjustment with the consent of the Chief Financial Officer, to Line B to correct the difference, thus causing a change in methodology from prior year. It was felt that this was the best way to handle the difference in payments. Documentation was provided to the field auditors to support adjustments." The auditors do not agree with the District's change in methodology, as (a) total transfers/payments per DFMS activity did not agree to total payments reported by the District and (2) support documentation provided by the District was considered sufficient to support the amounts reported as payments per the District. <p>Within the confines of the scope of this engagement, and due to the aforementioned issues, the AOA cannot conclude if the tuition tax levy was reasonable compared to tuition bills paid. AOA recommends that an independent review of the District's tuition tax activities be performed. This review would be to the benefit of the taxpayers, as well as the District, as it could (1) identify methods to improve the District's tuition tax process, (2) provide an independent opinion as to whether the special schools have received appropriate funding, and (3) provide an independent opinion as to whether the District's tuition tax levy is reasonable.</p>	

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